

# **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON NONGOMA MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Nongoma Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nongoma Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

#### **Significant uncertainties**

9. With reference to note 28 to the financial statements, the municipality is the defendant in two lawsuits. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

#### **Restatement of corresponding figures**

10. As disclosed in note 23 to the financial statements, the corresponding figures for 30 June 2009 for Nongoma Municipality have been restated as a result of an error discovered during the 2009-2010 in their financial statements for the year ended 30 June 2010.

#### **Fruitless and wasteful expenditure**

11. As disclosed in note 31.1 to the financial statements, fruitless and wasteful expenditure amounting to R159 402 was incurred, as a result of interest being charged for non-payment of pension fund contributions, as required by section 24(3) of the Municipal Councillors Pension Funds Rules.

### **Additional matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

#### **Other information included in the annual report**

13. I have not obtained the 2009-2010 draft annual report and therefore have not been able to identify any material inconsistencies with the financial statements.

#### **Unaudited supplementary schedules**

14. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

15. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations (Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 200) (MSA), Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (MSCM Regulations) and (MFMA), and financial management (internal control).

### **Predetermined objectives**

16. Material findings on the report on predetermined objectives, as set out on pages XX to XX are reported below:

### **Non-compliance with regulatory and reporting requirements**

#### **Report on predetermined objectives not submitted**

17. The financial statements submitted for auditing did not include the report on predetermined objectives of the municipality in terms of section 46 of the MSA.

### **Existence and functioning of a performance audit committee**

18. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Local Government: Municipal Planning and Performance Management Regulations of 2001 (MPPMR).

### **No mid-year budget and performance assessments**

19. The accounting officer of the municipality did not by 25 January of each year assess the performance of the municipality during the first half of the financial year, by taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan (SDBIP), as required by section 72 of the MFMA.

### **Internal auditing of performance measurements**

20. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 45(a) of the MSA and regulation 14(1)(a) of the MPPMR.

### **Lack of adoption or implementation of a performance management system**

21. The municipality did not adopt and implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required by sections 38 and 41(2) of the MSA as well as regulations 7 and 8 of the MPPMR.

### **Compliance with laws and regulations**

#### **Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)**

##### **The audit committee was not functioning properly**

22. The audit committee was not properly constituted and appointed, and therefore did not fulfil its responsibilities for the year under review, as required by section 166 of the MFMA.

##### **The internal audit unit was not functioning properly**

23. The internal audit did not fulfil its responsibilities for the year under review, as required by section 165(2) of the MFMA.

##### **The mayor did not adhere to his legislative responsibilities**

24. There was no evidence provided confirming that the mayor had tabled at least 10 months before the start of the budget year in the municipal council, the time-schedule outlining key deadlines for preparation, tabling and approval of the budget and review of IDP and budget related policies, as required by section 21(1)(b) of the MFMA. Furthermore, no evidence could be submitted indicating that the SDBIP was approved, as required by section 53(1)(c) of the MFMA.

##### **The accounting officer did not adhere to his statutory responsibilities**

26. The municipality did not perform a risk assessment for the year under review, as required by section 62(1)(c)(i) of the MFMA.
27. There was no evidence provided confirming that the accounting officer had submitted to the mayor within 14 days after the approval of the annual budget, the draft Service Delivery Budget Implementation Plan (SDBIP) and the draft annual performance agreements, as required by section 69(3) of the MFMA, read with section 57(1)(b) of the MSA.
28. The annual return for asset management, financial position and IDP to budget was not submitted to Treasury, as required by section (22)(b) of the MFMA.

##### **The financial statements were not prepared in accordance with MFMA**

29. The municipality had to make material adjustments to the annual financial statements submitted for audit on 31 August 2010. These adjustments constitute non-compliance with sections 122(1) and 125 of the MFMA.

##### **Supply Chain Management legislative requirements were not implemented or not adhered to**

30. The performance of contractors were not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
31. Capacity was not established in the municipality to ensure the contracts were properly enforced and monitored, as required section 116(2)(c) of the MFMA.

**Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)**

**Supply Chain Management legislative requirements were not implemented or not adhered to**

32. Senior management and staff did not complete annual declarations of interest, as required by SCM regulation 46(2)(e) and section 5A (Schedule 2) of the MSA.

**INTERNAL CONTROL**

33. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, MSA and MSCM Regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
34. The matters reported below are limited to the significant deficiencies regarding the basis for the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

**Leadership**

35. The accounting officer does not exercise oversight responsibility over performance reporting, compliance with laws and regulations and internal control. Actions are not taken to address risks relating to the achievement of complete and accurate performance reporting. Control weaknesses are not analysed and appropriate follow-up actions are not taken that address risks relating to the achievement of performance reporting objectives.

**Financial and performance management**

36. Systems are not appropriate to facilitate the preparation of quality financial statements and performance reports. The financial statements were subject to material amendments resulting from the audit.

**Governance**

37. Internal controls are not selected and developed to prevent, detect and correct material misstatements in financial reporting. A risk strategy/action plan was not determined to manage identified risks relating to predetermined objectives. Internal audit did not advise the accounting officer on internal controls. Moreover, the audit committee did not provide a credible and reliable review of the financial statements.

## **OTHER REPORTS**

### **Investigation in progress**

38. There is currently an investigation in progress at the municipality, which was initiated by the Department of Co-operative Governance and Traditional Affairs, the details of which are unknown at this time.

Pietermaritzburg

30 November 2010



**A U D I T O R - G E N E R A L**  
**S O U T H   A F R I C A**

*Auditing to build public confidence*